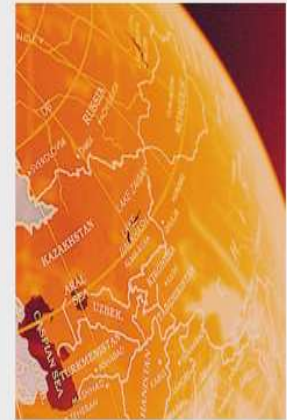
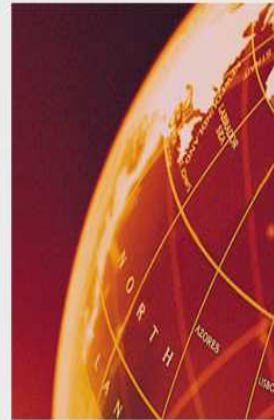




# A FINANCIAL LOOK TO THE NEW COMMERCIAL LAW

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# PRESENTATION HEADINGS

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- Main reasons behind the financial consequential amendments brought by the New Turkish Commercial Law
- The scope and effects of the amendment of accounting standards
- The obligation of independent audit to the companies (corporations and limited companies), instead of appointment of statutory auditors and the scope of independent audit
- The responsibilities of the Administrative Boards about risk control and the implementation of corporate management
- The necessities of transparency and disclosure of financial information

## Main Reasons Behind Financial Amendments

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Turkish Commercial Law, shaping business life over 50 years since 1957, is replaced by the New Turkish Commercial Law on 14th of January 2011, prepared by taking into account of today's conditions.

All corporations and limited companies will be subject to a substantial preparation period, since the New Turkish Commercial Law (New TCL) will come into force on 1st of July 2012.

## Main Reasons Behind Financial Amendments

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The New TCL, considering increasing company bankruptcies and administrative mismanagement, reforms current business life and business manners substantially.

The regarding reforms will bring Turkey to standards of international platform, eliminate unfair competitive practices and create attractive terms for foreign direct investment.

## Scope of Amendments in Accounting Standards

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New TCL 69-88. articles includes regulations regarding accounting standards and financial reporting.

In this regard, one of the primary reforms is; securing uniformity in implementation and bring the required books to Turkish Accounting Standards which are fully in accordance with the International Financial Reporting Standards, in order to gain validity to financial statements in international markets.

## Scope of Amendments in Accounting Standards

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This necessity that can be considered as a revolution, created a total change of accounting and recording system which were kept considering only tax provisions of law until today.

Thereby, financial statements will no longer be kept only in considering tax regulations, but will lead to analyze the financial positions and cash flows of the companies.

# Scope of Amendments in Accounting Standards

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## *The set of financial statements mandatory for regulations*

Financial statements that presented only to tax authorities contained balance sheet, income statement and limited footnotes information.

With the implementation of Turkish Accounting Standards, it will be mandatory to prepare the above stated tables and explanations to the set of financial statements.

- Statement of changes in equity
- Cash flow statements
- Detailed footnotes explained in every TAS.

## Scope of Amendments in Accounting Standards

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### *Importance of footnote explanations*

According to TAS, footnotes are complementary to the financial statements and missing footnotes result in the inconsistency between the regarding financial statements and TAS.

Below stated are examples of some footnote explanations that have vital role on evaluating companies' financial standings and financial positions that were not included in footnotes up to present;



# Scope of Amendments in Accounting Standards

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## Importance of footnote explanations

- Aging of receivables and the part of secured and unsecured receivables
- Financial risk management policy (exchange risk, interest risk, credit risk etc)
- Credit and financial payables' due date, interest and assurance information
- Information about discontinuing operations

## Scope of Amendments in Accounting Standards

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**Corrections for tax base determination will not be followed up in the statutory financial statements**

As the most common practice in the current system, determination of tax base from the statutory financial statements will no longer be possible.

In order to find tax base from the financial statement prepared in accordance with TAS, differences of two accounting principles will be considered one by one to reach profit basis to tax declaration.

## Scope of Amendments in Accounting Standards

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**Corrections for tax base determination will not be followed up in the statutory financial statements**

In principle, since the aim of tax laws and TAS are different, it seems it will not be probable to reach the same / common valuation principles.

Thus, it is important for the companies' accounting and reporting units to have a general understanding of differences of tax laws and TAS.

## Scope of Amendments in Accounting Standards

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### **The necessity of regulations in uniform chart of accounts**

The current uniform chart of accounts serves for the aim to fulfill the requirements of tax laws and unity of implementations.

However, with the implementation of TAS, the necessity to revise the uniform chart of accounts and add the required accounts emerged.

Currently, the studies of professional bodies and the related authorities are in progress.

## Scope of Amendments in Accounting Standards

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### **Determination of financial statement formats**

It is expected that the formats of balance sheet, income statement, changes in equity statement and cash flow statement to be decided and published, in order to provide uniformity in implementation.

## Scope of Amendments in Accounting Standards

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### *The necessity of group company and consolidated financial statement preparation*

New TCL Article 195 describes group companies and points that company investments, which are controlled within the scope of TAS, must be included in the financial statements in accordance with consolidation basis.

Even if consolidated financial statements are prepared, group companies will not be taxed considering consolidated profit.

## Scope of Amendments in Accounting Standards

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### **Authorized Professional Organisation to issue TAS**

TAS, prepared by Turkish Accounting Standards Board (TASB) in accordance with IFRS is being published in Trade Registry Gazette since the beginning of 2005.

TASB issues updates and changes regularly, since IFRS states contemporary accounting standards and interpretations

TAS is being issued in TASB's official web site regularly ([www.tmsk.org.tr](http://www.tmsk.org.tr)).

## Scope of Amendments in Accounting Standards

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### *What is SME TFRS? What is the difference between full set TAS?*

**SME TFRS are the accounting standards, prepared to be used by small and medium size enterprises and simplified in respect of full set TAS**

**SME TFRS, being issued by International Accounting Standards Board in 9th of July 2009, was published in Trade Registry Gazette by TASB in 1st of November 2010.**



## Scope of Amendments in Accounting Standards

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### **Who will apply SME TFRS?**

In SME TFRS, there were no numerical criteria set for the companies that apply the regarding accounting principles. The main criteria set for the company was to not to have public accountability.

Companies that are in need of public accountability can be considered as follows: listed companies, banks, security institutions, insurance companies, investment funds, government enterprises that have substantial effect on the overall economy, factoring companies.

## Scope of Amendments in Accounting Standards

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### Who will apply SME TFRS?

SME criteria referred by New TCL has not been announced as of today. The below table is presented to give an idea for SME criteria set by Ministry of Industry and Commerce;

<b>Criteria</b>	<b>Micro Scale</b>	<b>Small Scale</b>	<b>Medium Scale</b>
<b>Number of Employees</b>	< 10	< 50	< 250
<b>Amount of Sales</b>	<1.000.000 TRY	<5.000.000 TRY	<25.000.000 TRY
<b>Total Assets</b>	< 1.000.000 TRY	<5.000.000 TRY	<25.000.000 TRY

## Scope of Amendments in Accounting Standards

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### Who will apply SME TFRS?

When SME's are considered in Turkey, companies with 1-9 employees composed approximately 94% of overall SME's.

Thus, it can be assumed that most companies in Turkey will be using SME TFRS.

## Obligation and Scope of Independent Audit

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### **Why “Independent audit instead of comptroller”**

As of today, audit was considered only a procedure to be completed by a “comptroller”, who does not need to be an expert in finance and does not need to be following specific standards, thus could not enrich the companies.

New TCL introduces a substantial change that the audit is to be performed by independent audit firms within the scope of the Turkish Standards on Auditing (TSA) that are based to International Auditing Standards.

## Obligation and Scope of Independent Audit

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### Auditors selection

Within the concept of new TCL, Article 399;

Auditor is selected, by company general assembly;  
group auditor by parent company's general assembly.

Auditor selection before the end of the financial year  
is a must.

Following the selection, board of management must  
immediately announce the auditor through Turkish  
Trade Registry Gazette and web site.

## Obligation and Scope of Independent Audit

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### *What are the prohibited and permitted services for audit firms and auditors?*

Auditor, cannot provide any consultancy and service except tax consultancy and tax audit. The auditor cannot perform these services through a subsidiary company either.

Auditor, cannot provide book-keeping service.

## Obligation and Scope of Independent Audit

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### *What is included in audit scope?*

Audit includes, all necessary financial statement and footnotes' audit, review of internal audit procedures within the scope of TSA.

Besides, audit will include a comparison of the activity report of Board of Directors and financial statements and footnotes of audit report, since they must be in accordance.

## Obligation and Scope of Independent Audit

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### *Independent Audit Opinion and conclusions*

In cases of adverse opinion or disclaimer of opinion reports, general assembly cannot make a decision related directly or indirectly to declared profit/loss.

In such cases the general assembly convokes a general assembly meeting and resign within four days of the delivery of the audit report and the opinion.



## Obligation and Scope of Independent Audit

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### *Independent Audit Opinion and conclusions*

General assembly elects a new board of directors. The new administrative board is responsible for the preparation of the financial statements in accordance with legal framework, and standards within six months.

General assembly is responsible to conclude necessary precautions and adjustments in case of qualified opinion.

## Obligation and Scope of Independent Audit

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### *Difference of opinion between the audited company and auditor*

In case of a dissidence between the audited company and the auditor about the interpretation of the legal framework, contract and implementation, with the request of either the auditor or the company's board of directors, the decision is made by the Commercial Court of First Instance and the decision is final.

## The responsibilities of the Administrative Boards about risk control and corporate management

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Board of Directors are responsible to establish an internal audit and control system for determining risks for company, preventing and controlling them.

Besides, according to Article 378, it is essential to implement corporate management principles in company's administration and especially for listed companies the necessity of a risk management committee that reports to administrative board is indicated.

Another responsibility of the auditor for non-listed companies is to expose the need for such committees if necessary.

## Transparency and explanation of financial statements

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Transparency, being one of the corporate management principles, is one of the principles taken into account in new TCL.

The aim of transparency clause is providing regular briefing and financial information to shareholders and stakeholders that will be used during the decision making process.

## **Transparency and explanation of financial statements**

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According to the new TCL article 1524

Every corporation has to build a web site and allocate a part of it for announcements, invitations and explanations according to transparency principle.

Besides, other notifications which will be published on the web site are as follows;

Financial statements and footnotes, audit reports, operational reports of the board of directors, corporate managements principles compatibility report.

## **Transparency and explanation of financial statements**

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Financial statements and other reports must be published on web site at least five years.

Other notifications must be posted on web site at least for six months, otherwise will be considered as not published.

It is essential that the company data is easily and cheaply accessible for the transparency principle.

## Conclusion

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All mentioned implementations and changes, show that important structural changes will be applicable to companies, and the time must be considered as the preparation period until the implementation of the new TCL.

Thank you!



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